Selling, General and Administrative

Consolidated selling, general and administrative expenses in 2004, as a percent of consolidated net sales, remained relatively unchanged versus 2003 and 2002. Higher freight rates in North and Latin America were partially offset by productivity in other non-logistic areas. Europe benefited from leverage on higher sales and lower administrative costs. The increase in Asia's selling, general and administrative expenses, as a percent of sales, was due primarily to lower overall sales and higher administrative support costs. In 2003, higher pension and freight costs in North America were partially offset by cost controls on discretionary spending. The European increase in 2003 was a result of expense reclassification into selling, general and administrative expenses, while Latin America's improvement was primarily driven by lower bad debt expense in 2003. Asia's higher selling, general and administrative expenses, as a percent of sales in 2003 and 2002, were due to higher operating reserves.

Restructuring and Related Charges

Restructuring initiatives resulted in pre-tax restructuring charges of $15 million, $3 million and $101 million in 2004, 2003 and 2002, respectively. These amounts have been identified as a separate component of operating profit. As a result of the Company's restructuring activity, it also recognized $7 million, $11 million and $60 million in pre-tax restructuring related charges during 2004, 2003 and 2002, respectively, which were recorded primarily within cost of products sold.

During the fourth quarter of 2002, the Company recognized the vast majority of remaining charges for the global restructuring plan that was originally announced in December of 2000. The plan, which had a total restructuring and related pre-tax cost of $387 million, is expected to result in more than $200 million in annualized savings. At December 31, 2004, a liability of $13 million remains for actions yet to be completed under the plan. Actions under the plan include the elimination of over 7,500 positions worldwide, of which approximately 7,100 had been eliminated as of December 31, 2004.

Other Income and Expense

Interest income and sundry expense decreased approximately 66% compared to 2003. The improvement is primarily attributable to lower losses of $17 million on foreign currency balance sheet positions, primarily in Europe, and a $9 million gain on the sale of a partial interest in an equity investment in Latin America. Interest income and sundry expense in 2003 decreased approximately 24% compared to 2002. The improvement is largely attributable to lower foreign currency losses, as well as lower losses in asset dispositions and the absence of a 2002 fire loss within a Mexican facility.

Interest expense reductions during 2004 and 2003 of $9 million and $6 million, respectively, are attributable to a lower overall U.S. interest rate environment, a decrease in borrowings in countries with higher interest rates, primarily Europe, and maturity of the $200 million 9% Debentures in March 2003, which was replaced with lower rate debt.

Income Taxes

The effective income tax rate was 33.9% in 2004, compared to 35% in 2003 and 39% in 2002. The impact of audit settlements and tax planning, as well as the dispersion of global income, has contributed to changes in the Company's effective tax rate over the periods presented.

Equity in Loss of Affiliated Companies and Minority Interests

Changes in equity in loss of affiliated companies and minority interests reflect lower earnings in Latin America and India during 2004. The 2003 results improved $30 million versus 2002. The 2002 results were reduced by a $22 million after-tax impairment charge related to the Company's minority investments in and advances to Wellmann, a German kitchen cabinet manufacturer. During 2003, the Company's investment in the equity of Wellmann was sold to Alno, a prominent German kitchen cabinet manufacturer. The sale did not have a material impact to the Company's financial position or results of operations. The 2002 results were also impacted by a $4 million charge related to a minority interest in an Asian entity.

Earnings from Continuing Operations

Earnings from continuing operations were $406 million in 2004 versus $414 million and $262 million in 2003 and 2002, respectively. Full-year 2004 earnings were significantly impacted by increases in material and logistics costs, particularly in the second half of 2004. These higher costs were partially offset by productivity improvements, lower foreign currency losses on balance sheet positions, an effective tax rate reduction, lower financing costs and reduced minority interest earnings. The significant increase in 2003 relates primarily to approximately $147 million of higher restructuring and related charges in 2002, the full-year impact of acquisitions, strong volume growth, productivity improvements and absence of an equity investment write-off, partially offset by an increase in expense due to the decline of the U.S. dollar.

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Discontinued Operations

The Company wrote off its investment in leveraged aircraft leases during the fourth quarter of 2002 as a result of the United Airlines bankruptcy filing in December 2002. The write-off resulted in a non-cash charge to discontinued operations of approximately $68 million, or $43 million after tax. These leveraged lease assets were part of the Company's previously discontinued finance company, Whirlpool Financial Corporation.

Although most of its assets have been divested, Whirlpool Financial Corporation remains a legal entity with assets consisting primarily of a leveraged lease portfolio. As of December 31, 2004 and 2003, the portfolio totaled $15 million and $42 million, respectively, net of related reserves. The Company continues to monitor its arrangements with the lessees and the value of the underlying assets.

Cumulative Effect of Change in Accounting Principle

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002. As a result of this adoption, the Company recorded a non-cash, after-tax charge of $613 million in 2002.

Forward-Looking Perspective

During 2004, the Company incurred approximately $300 million of higher material and oil-related costs. The Company expects higher material costs, primarily within North and Latin America, of $500 to $550 million during 2005, primarily due to higher prices for steel and resins. To address this challenging environment, the Company has implemented global price increases of approximately 5-to-10%, effective January 2005, in most key markets around the world. The Company has also initiated actions to drive record levels of controllable productivity, leverage its global operating platform, reduce non-product related spending and accelerate the rate of new product innovation to the market. The full effect of these cost increases will be reflected in the Company's cost structure from the start of 2005, while benefits of both price increases and productivity improvements will build throughout the year.

North America and Europe, the Company's two largest segments, expect 2005 industry growth of approximately 2% and 1%, respectively. The Company's efforts in these two regions during 2005 will be to execute previously announced price increases, drive record levels of controllable productivity, and expand its market share through leveraging its strong brand portfolio, expanding key market leadership and introducing continuous, relevant, branded innovations to the market.

Macroeconomic conditions in Latin America are expected to remain positive during 2005, and the Company expects industry shipments to increase 4-to-5%. Price increases implemented throughout 2004, and additional increases enacted for 2005, are expected to offset significant material cost increases. Manufacturing and supply chain productivity is anticipated to contribute to improved operating profit margin performance and exports to the Company's global operations are expected to increase.

Asia results will benefit from new product introductions, improved product mix and favorable comparisons to last year's results that reflected the Company's inventory trade-reduction strategy in India. The Company will continue to expand its China procurement and technology base to support its global operations, expand domestic sales within China and India, and increase global exports of components and finished product.

Cash Flows

Whirlpool's main source of cash flow is from operating activities. The Company's 2004 cash provided by operating activities benefited from lower after-tax pension contributions of approximately $62 million and lower restructuring spending of approximately $56 million. Cash flow was negatively impacted by higher working capital requirements of about $70 million, driven largely by material cost increases and higher inventory levels to support higher volumes and increased trans-regional shipments. The Company's 2003 cash provided by operating activities benefited from higher earnings, primarily within the European and North American business segments, as well as continued improvement in working capital management. Cash flow was negatively impacted by a voluntary, after-tax pension contribution to the Company's U.S. pension plans of $97 million. In comparison, after-tax U.S. pension contributions made during 2002 were $5 million. The 2003 results were also negatively impacted by restructuring spending, primarily related to